

City of Sugar Land FY21 Budget Workshops

GENERAL FUND AND PROPERTY TAXES

Workshop Format

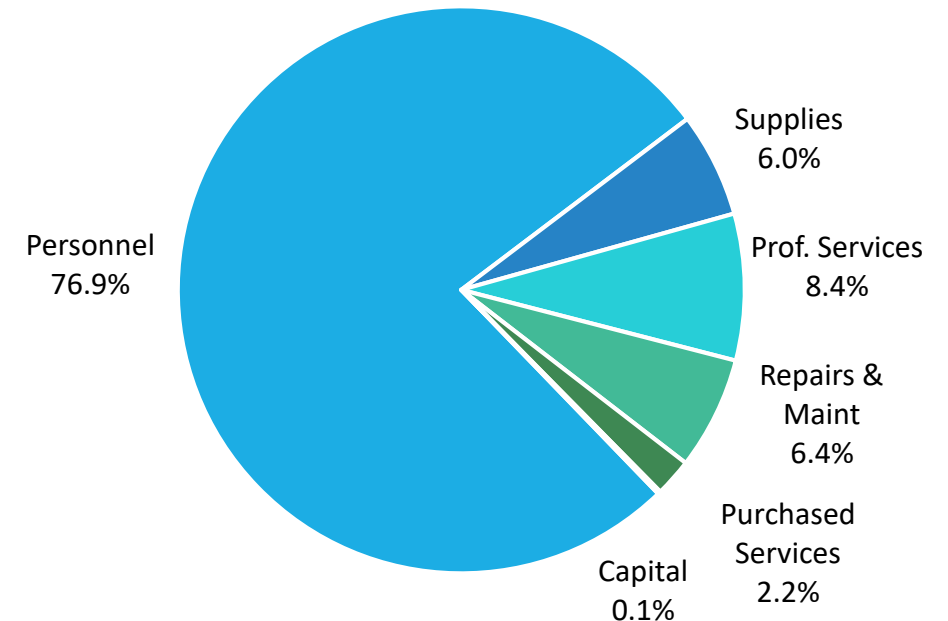
- Review budget information
- Staff is keeping track of questions
 - Answer questions as we go
 - Identify areas for more information and follow up
 - Will provide a summary of answers to all
- Goal: provide information to allow for informed City Council decisions



General Fund Overview

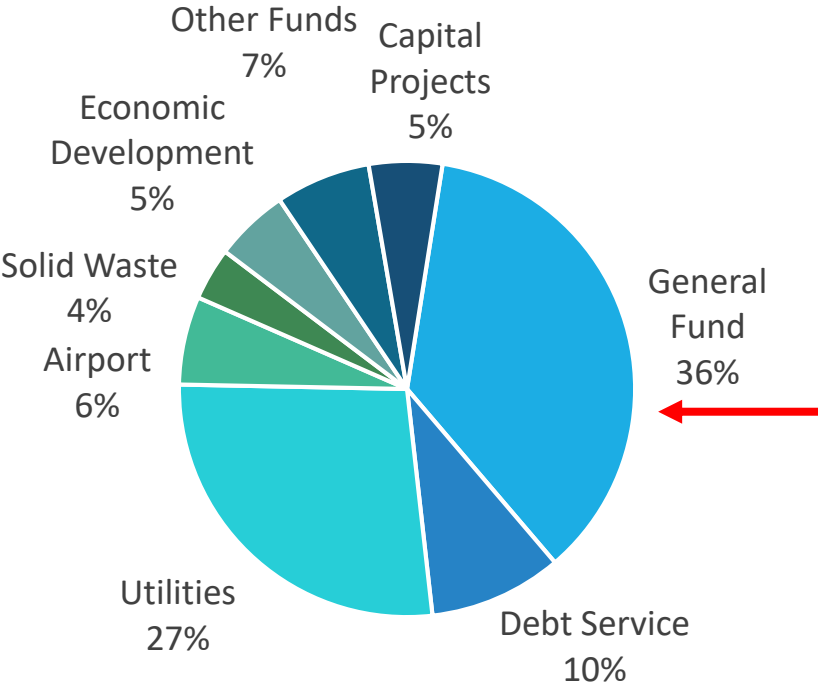
- Primary Operating Fund for the City
- Accounts for All Activity that isn't Legally Required to be Accounted for Separately
- Provides Traditional Government Services
 - Public Safety: Police, Fire/EMS, Dispatch
 - Streets, Drainage, ROW Maintenance
 - Parks & Recreation
 - Environmental & Neighborhood Services
- Funded Primarily by Property & Sales Taxes

General Fund Operating Expenditures

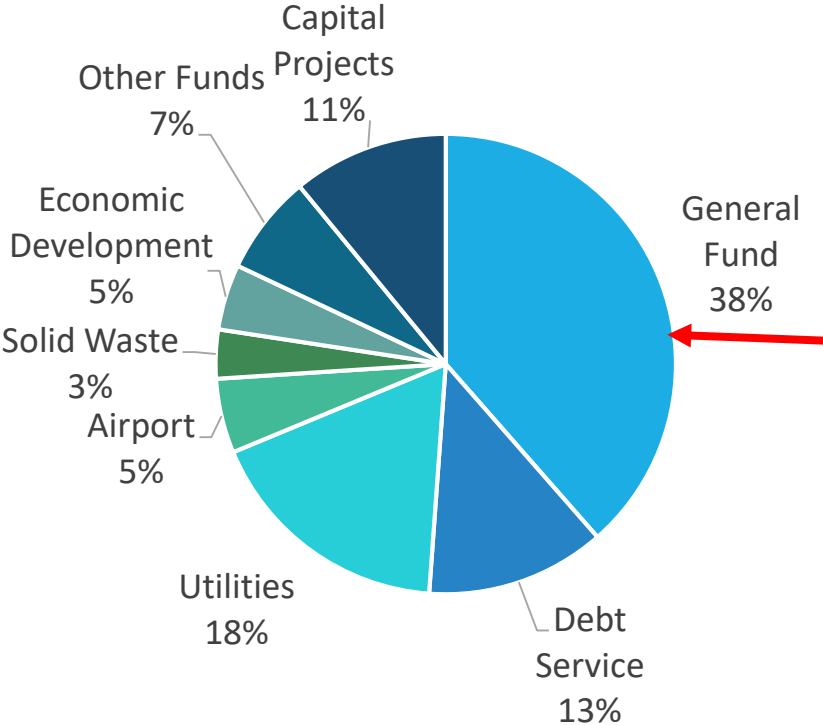


FY21 Proposed Budget

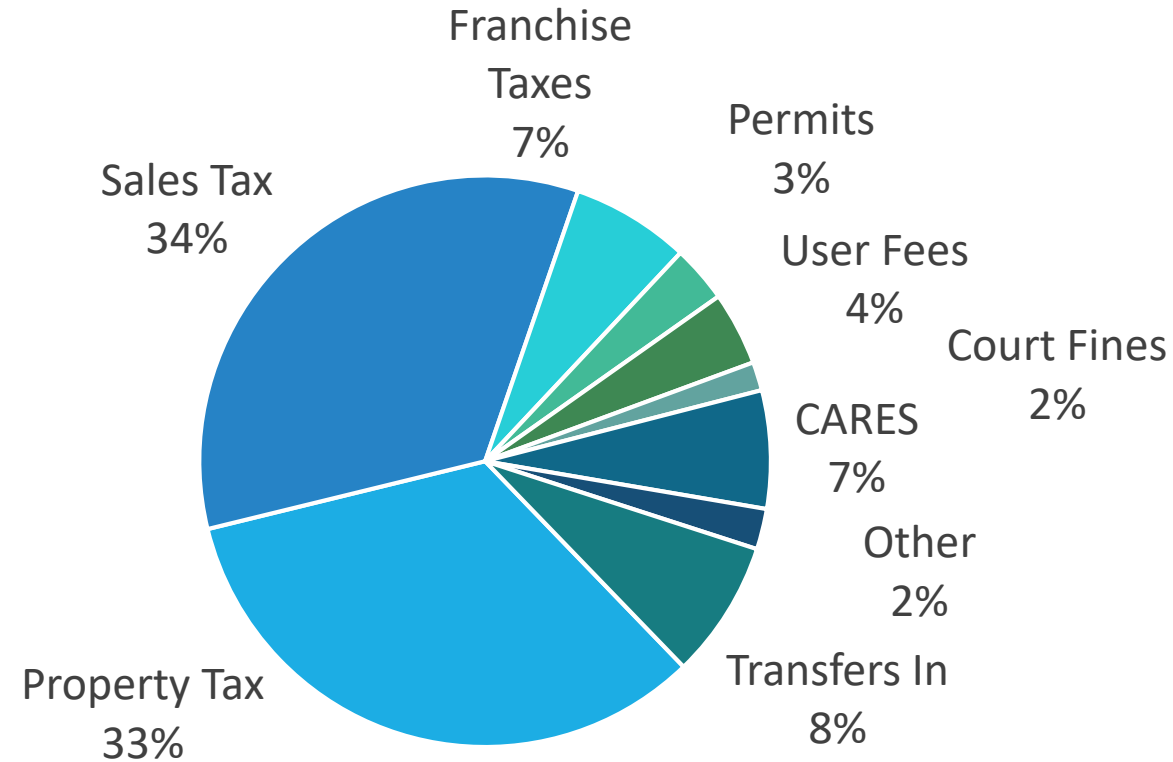
Total Revenues \$245M



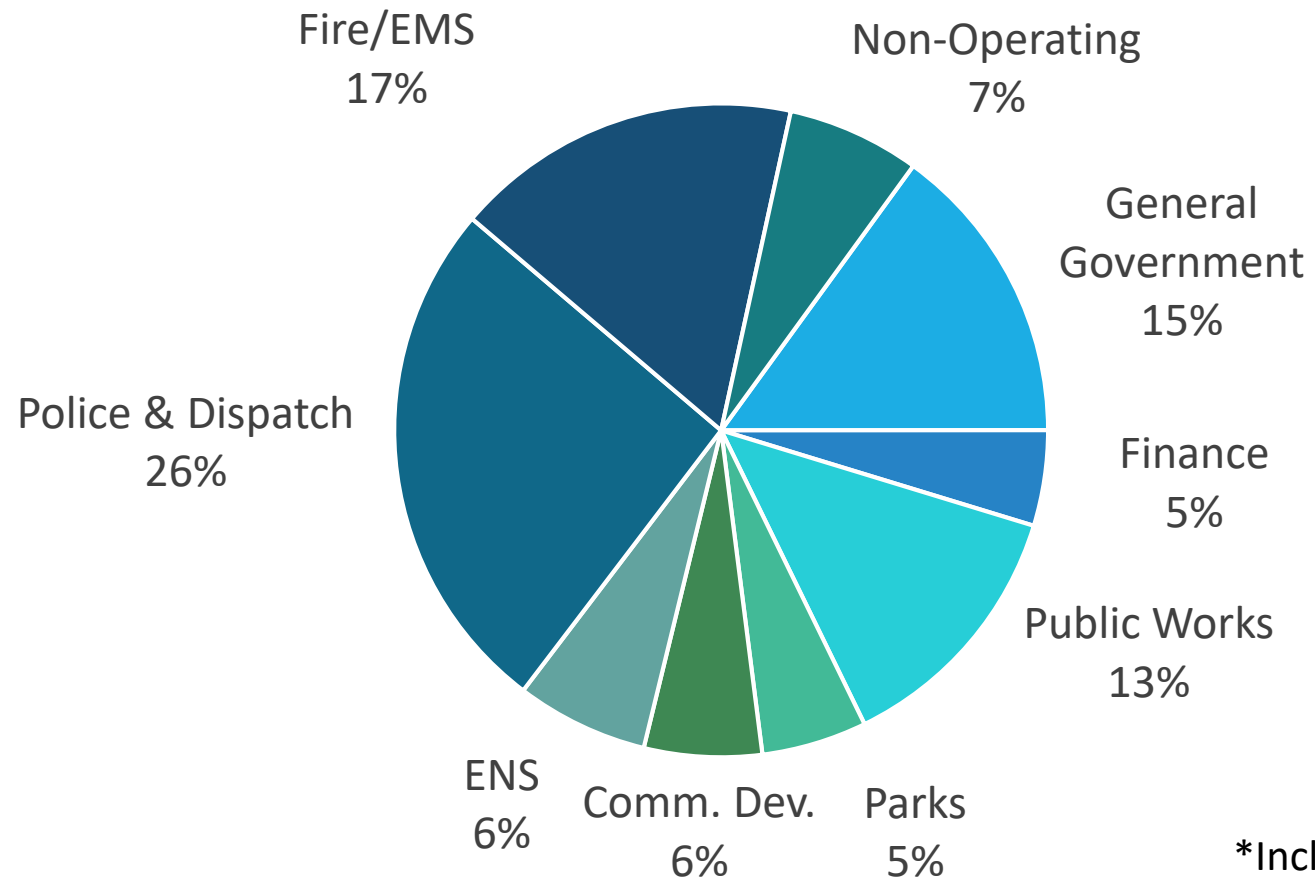
Total Expenditures \$253.7M



FY21 General Fund Total Revenues \$97.6M



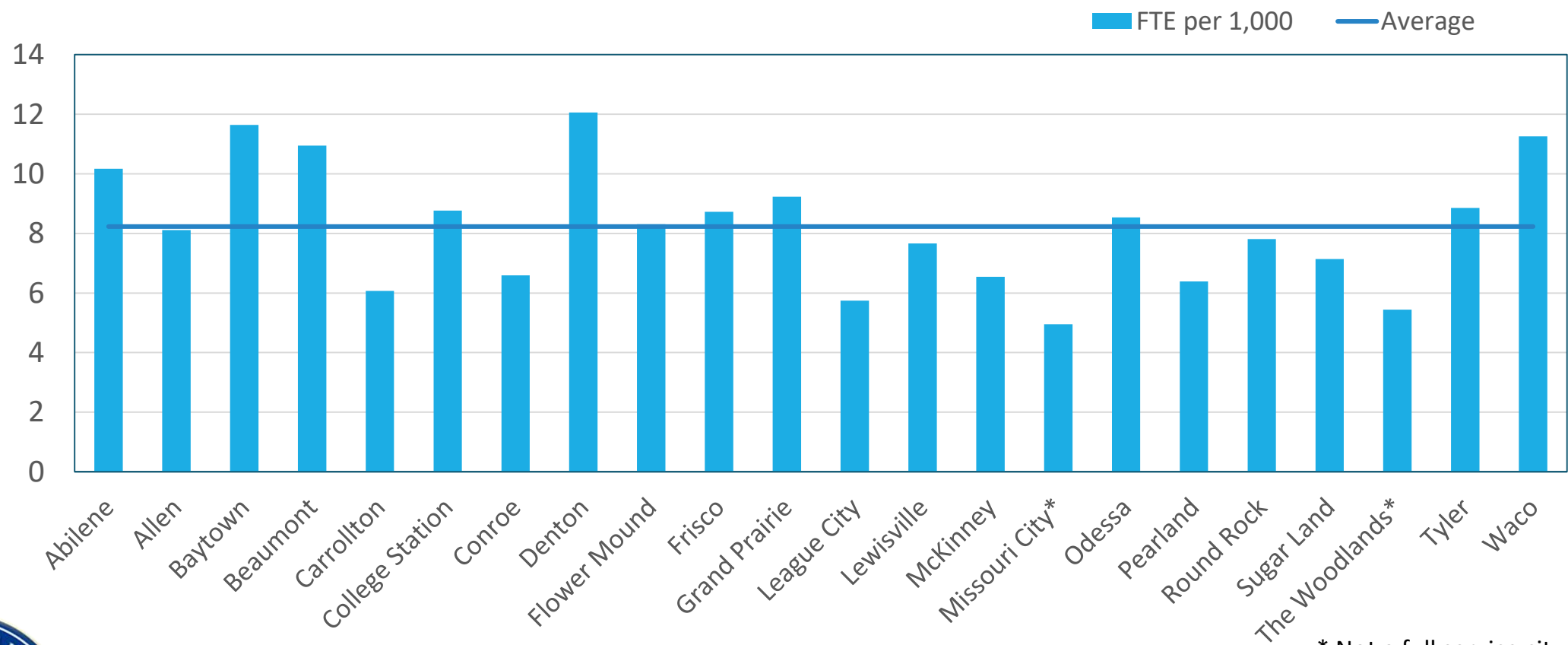
FY21 General Fund Expenditures \$98.87M*



*Includes Transfers Out



Championship Workforce



* Not a full service city



General Fund Guiding Principles

- **Responsible**
 - Immediate and ongoing financial planning efforts- short & long term
 - Maintain service levels expected by residents
- **Conservative**
 - Financial stewardship: low residential tax burden, lean organization
 - Manage downturn by reducing expenditures when possible
- **Resilient**
 - Strategic measures implemented in recent years, such as:
 - Shift property tax to operations to fund Sugar Land Way initiatives
 - Reduce dependence on sales tax by budgeting only recurring revenue



General Fund Strategies for FY21 Budget

- Proactive Planning & Response
 - Significant time spent determining impact of COVID on City's finances
 - Immediate planning of various financial scenarios tied to pandemic and economic recovery
 - Data driven decision making and delay key decisions to better align with the availability of data
 - Strive to become more resilient - but not at the expense of other values



FY20 Revenue Impacts of COVID-19

Revenue Impacts of COVID

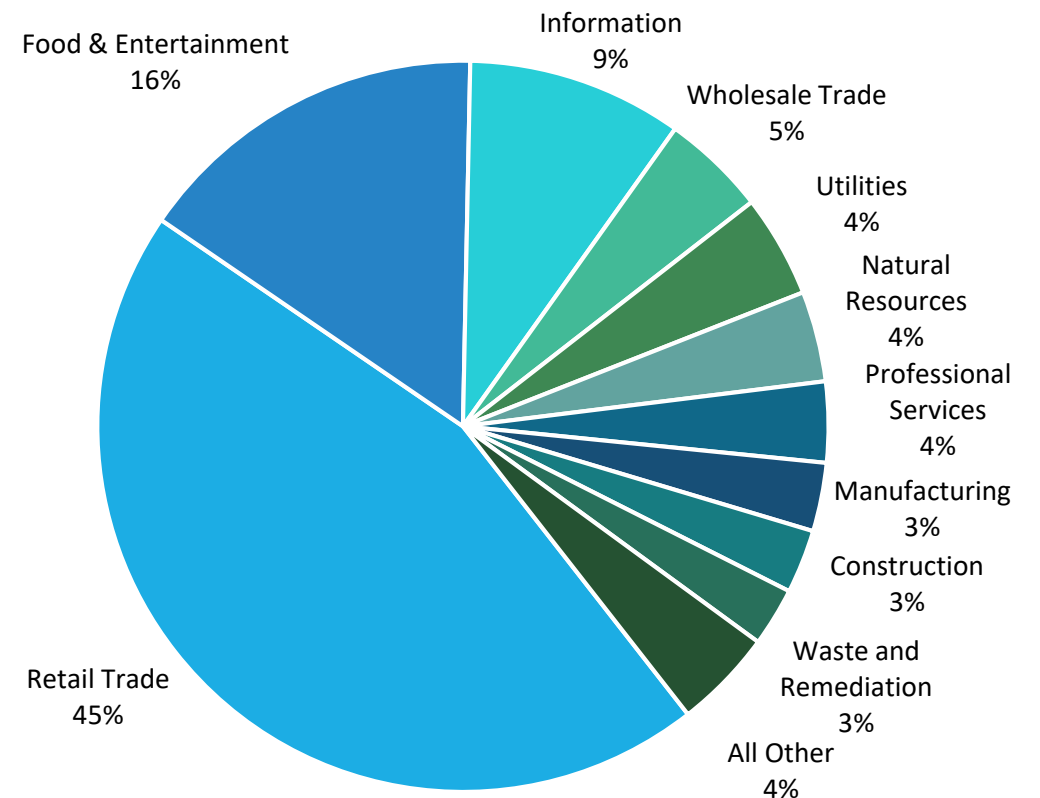
- Immediate Examination of Major Revenue Streams:
 - Sales Tax
 - Mixed Beverage Taxes
 - EMS Transport Fees
 - Fines & Forfeitures
 - Building Permits
 - Parks & Recreation Fees
- Conservatively estimate ~\$3M in FY20 revenue loss in General Fund
 - Impact understated and offset by resiliency measures in place
 - More than \$4M decline in General Fund sales tax revenue loss projected in comparison to FY19 total



Sales Tax – FY20 Update

- FY20 YTD Collections through July: \$43.11 M
- Conservative budgeting and actual performance of collections earlier in the year has put the City in a stronger financial position
- Estimated Impact to Major Sectors and Targeted Industries for Aug-Sept
- 50% Decline in Retail and Food & Entertainment Sectors

Sales Tax Distribution by Sector

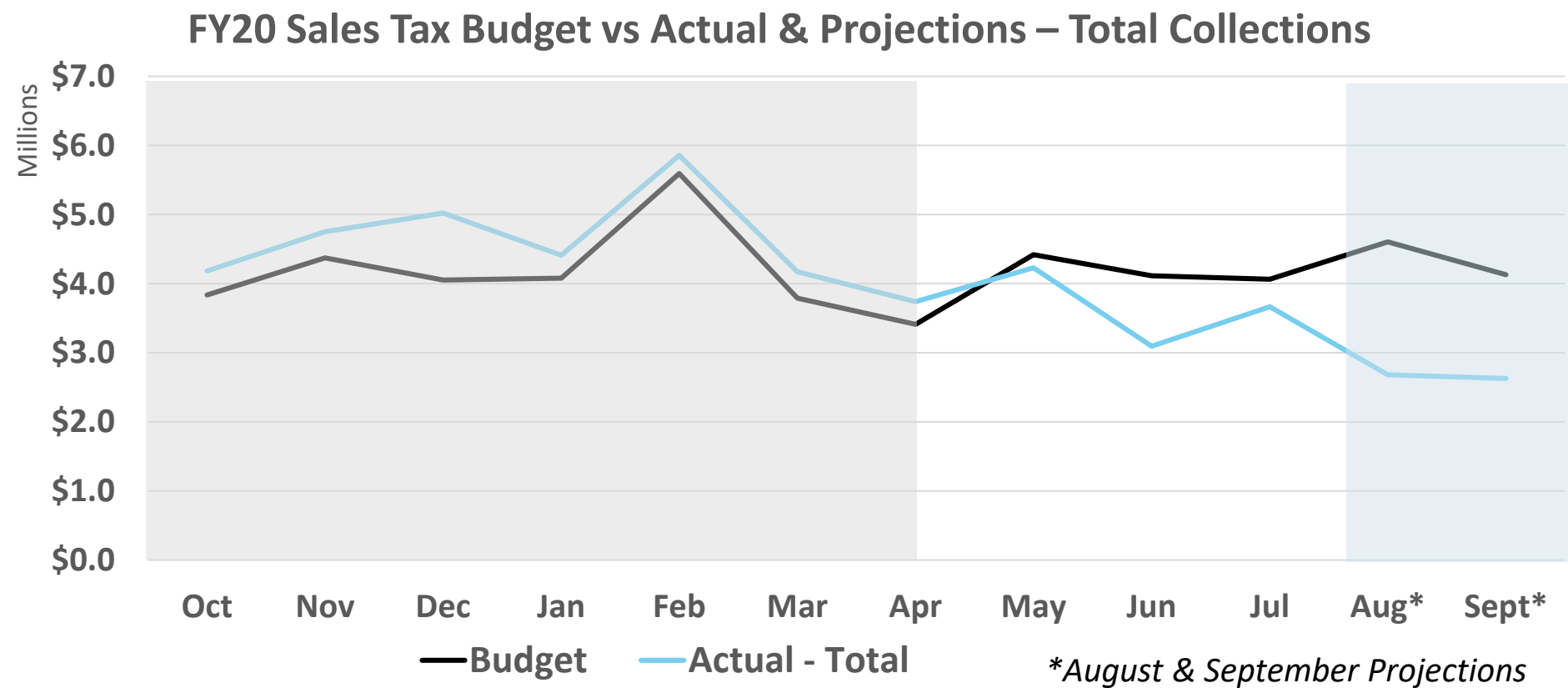


Sales Tax – Major Sector Performance Amidst COVID

Sales From	Allocation Month	Retail Trade		Food & Entertainment	
		Projected Decline from FY19	Actual YOY Change	Projected Decline from FY19	Actual YOY Change
March	May	-75.00%	-14.92%	-75.00%	-47.13%
April	June	-75.00%	-34.94%	-75.00%	-46.54%
May	July	-50.00%	-11.03%	-50.00%	-35.68%



Economic Impact of COVID-19



Other Revenues

- Mixed Beverage Taxes
 - COVID-19 had a significant impact on Mixed Beverage Taxes due to restaurant and bar closures, as well a reduced occupancy limits placed into effect in the Governor's reopening plan
- EMS Transport Fees
 - EMS calls down 30% - result of patients not utilizing services during the shut down
- Fines & Forfeitures
 - Due to cancellation of in-person appearances and fewer violations being issued, Fines and Forfeitures has seen a direct impact as a result of COVID-19



Other Revenues Continued

- **Building Permits**
 - Building Permits experienced a decline in volume due to a drop in new development activity
 - Increase in remodeling activity as homeowners invest in properties
 - Revenue is stable for FY20, projected at budget
- **Parks & Recreation Fees**
 - Cancellation of Special Events and Camp Programs
 - Parks and Recreation saw a significant decline in revenue from facility rentals



FY20 Revenue Impact Estimates

Revenue \$M	FY20 Budget	Worst Case Estimate	FY20 Revised Projection	Variance to FY20 Budget
Property Taxes	\$ 30.95	\$ 31.06	\$ 31.06	\$ 0.11
Sales Tax	37.84	32.53	36.32	-1.52
Other Tax	6.76	6.66	6.70	-0.06
Licenses & Permits	3.36	3.36	3.36	-
Charges for Services	4.39	3.69	3.69	-0.70
Intergovernmental	1.08	1.11	1.09	0.01
Fines & Forfeitures	1.99	1.34	1.34	-0.65
Other	8.35	8.35	8.34	-0.01
Total	\$ 94.72	\$ 88.10	\$ 91.90	\$ -2.82



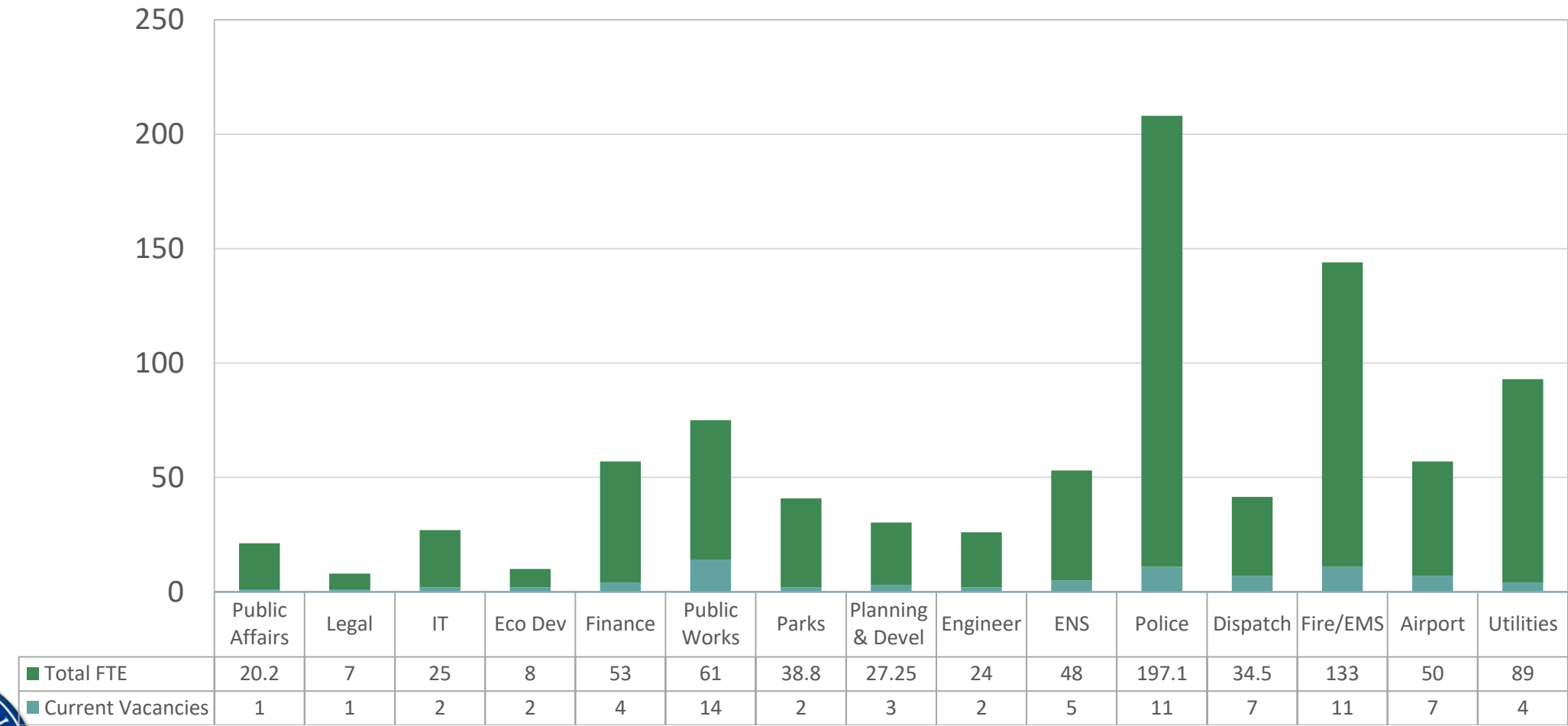
FY20 Response to Financial Impact of COVID

Response to Financial & Economic Impact

- Financial Management Policy Statements (FMPS) provide direction to City Manager to respond to mid-year revenue declines
- Staff took immediate action to reduce expenditures accordingly
 - Hiring freeze
 - Reduced budgets based on historical savings
 - Hold on new initiatives/programs (including Sugar Land Way)
 - Capture savings in fixed costs
 - Freeze non-essential external travel/training



Current Vacant Positions



FY20 Projected Year-End Results

\$M	FY20 Budget	FY20 Projections
Revenues	\$ 94.727	\$ 91.917
Expenditures	101.30	99.943
Ending Fund Balance	26.457	25.007
Fund Balance Requirement	21.684	21.262
% of Operating Expenditures	31%	29%

Fund Balance Policy: 25% of Operating Expenditures



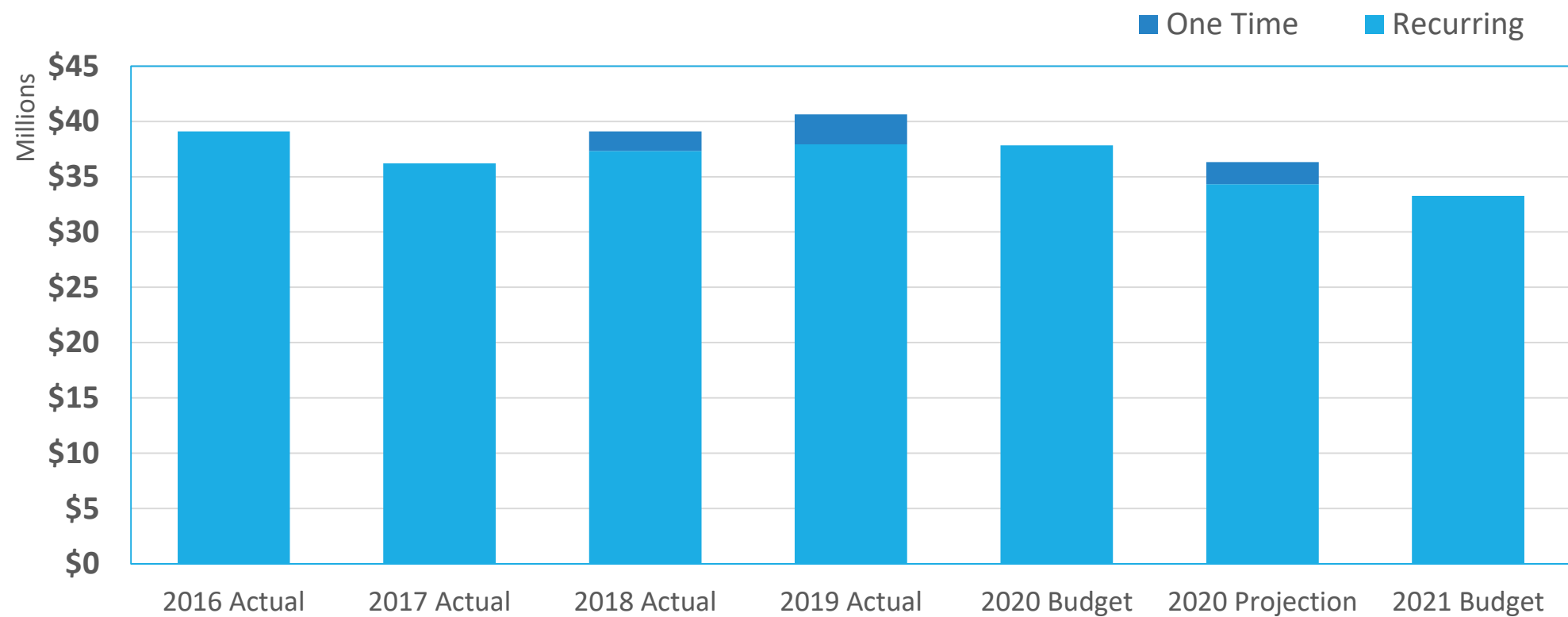
FY21 Revenue Impact

FY21 Sales Tax

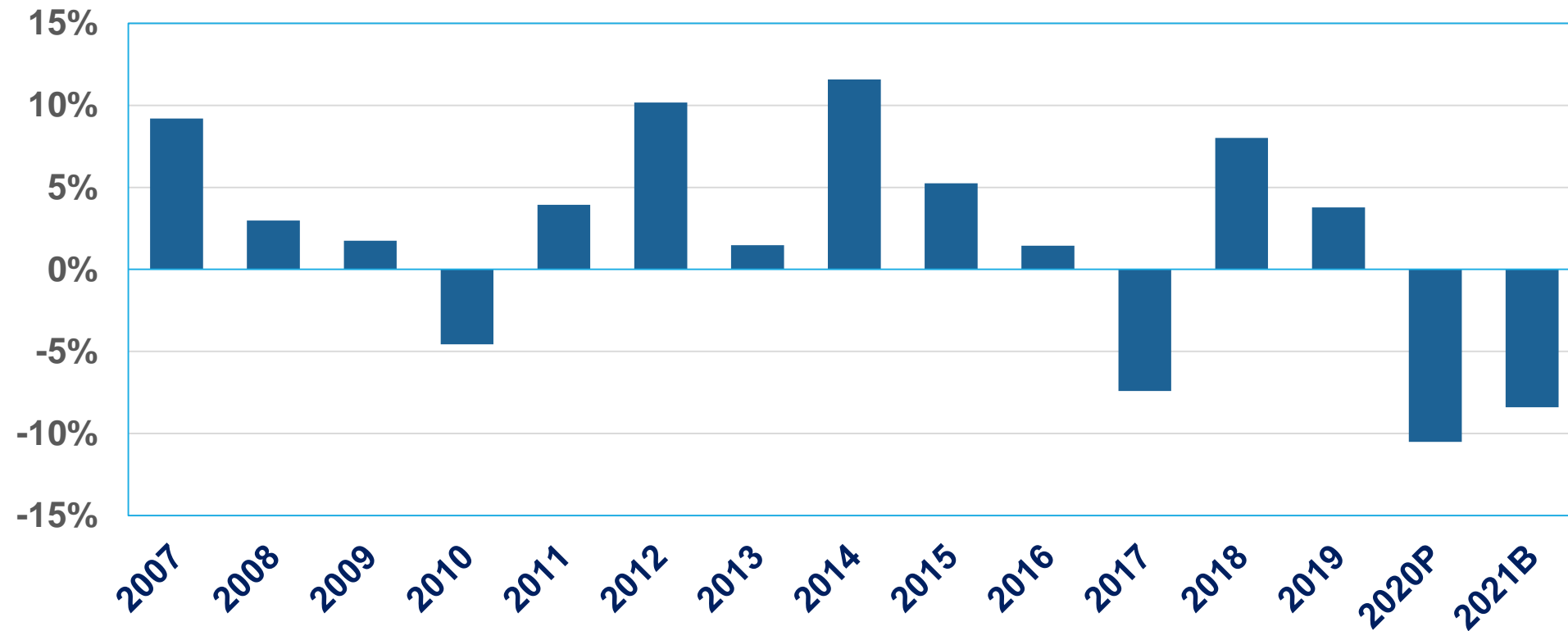
- Hybrid Estimation built on both FMPS direction and Economic Data
 - FMPS direction to budget based on prior year recurring revenue
 - FY21 builds in COVID impacts based on Economic Recovery Models and estimated decline in major sectors
 - U-Shape recovery model estimates first 6 months of FY21 to be affected
 - Retail Trade - 30% decline
 - Food & Entertainment - 50% decline
 - Last 6 months budgeted based on FY20 budgeted amounts



General Fund Sales Tax



Year over Year Growth in Sales Tax



General Fund Revenue COVID-19 Impact

- Fines & Forfeitures
 - Delay in trials, reduced violations issued have led to an overall decline in revenue for FY20 vs budget
 - Budget assumes this trend will continue into the first half of FY21
- Mixed Beverage Taxes
 - Reduced restaurant capacity and full closure of bars continues
 - Assumes a 50% decline from Q1-Q2 of FY20 for first half of the year



General Fund Revenue COVID-19 Impact

- Licenses & Permits
 - Slowdown in construction due to economic downturn
 - Estimate a 6% overall decline in Building Permits from FY20 Budget
- Charges for Services
 - Facility rentals and classes were delayed or cancelled in FY20
 - Assumed a continued impact on these revenues for first 6 months
 - EMS experienced a 35% decline in billable calls (April lowest decline YTD)
 - FY21 reflects this decline in billable calls for six months & the next 6 months back to regular call levels



FY21 Base Revenues

Revenue \$M	FY20 Budget	Worst Case Estimate FY20	FY20 Projections	FY21 Base Budget
Property Taxes	\$ 30.95	\$ 31.06	\$ 31.06	\$ 32.01
Sales Tax	37.84	32.53	36.32	33.27
Other Tax	6.76	6.66	6.70	6.55
Licenses & Permits	3.36	3.36	3.36	3.10
Charges for Services	4.39	3.69	3.69	4.04
Intergovernmental	1.08	1.11	1.09	1.03
Fines & Forfeitures	1.99	1.34	1.34	1.58
Other	8.35	8.35	8.34	7.35
Total	\$ 94.72	\$ 88.10	\$ 91.90	\$ 88.94



FY21 Expenditures

FY21 - General Fund Expenditure Strategies

- Reduce funding and defer implementation of major initiatives:
 - Employee Merit – reduce from 3% to 1.5% *
 - Infrastructure Rehabilitation – 15% reduction*
- Departmental Operating Budgets
 - Historical savings and targeted reductions
- Fleet and High Tech Replacement Funding
 - Reduce annual contributions by 50% to 75%
- Salary savings offset at 2% of personnel cost
 - Manage vacancies plus potential elimination of vacant positions

** Dependent upon on the results of revenues performance, if feasible, funds will be released in March 2021.*

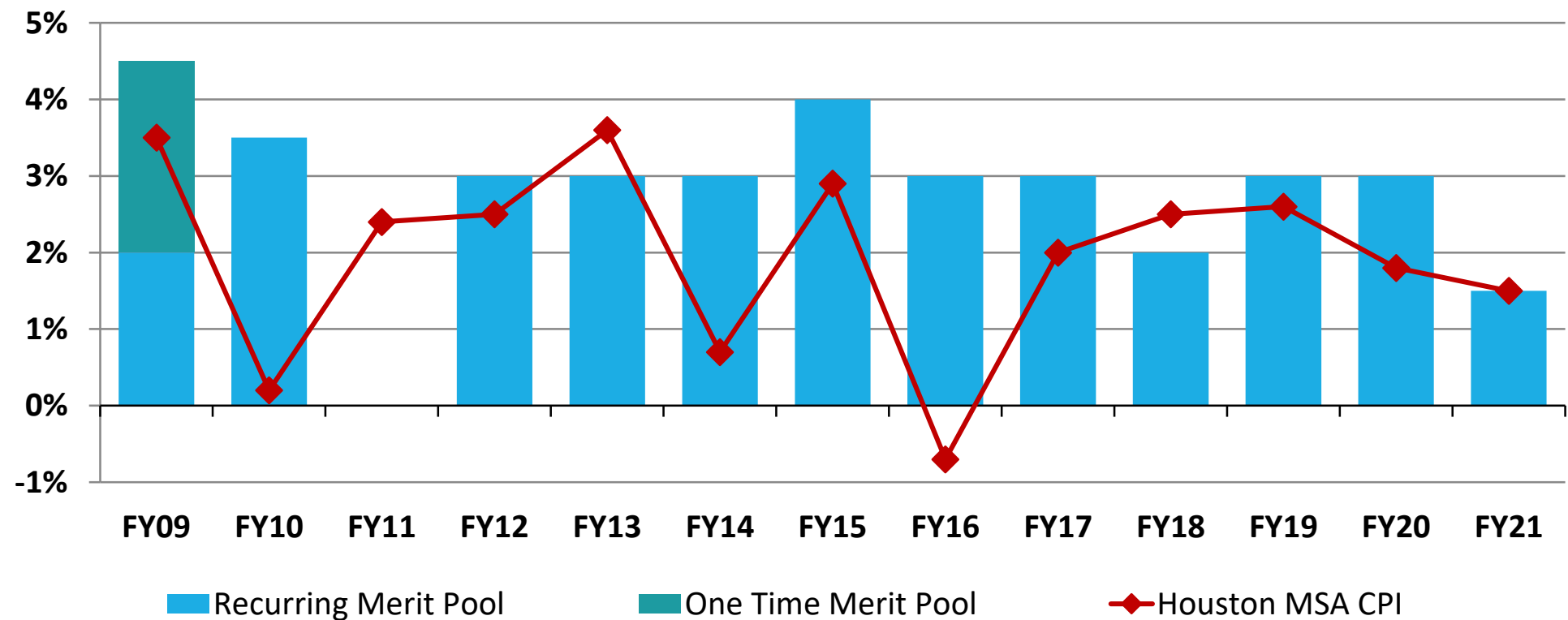


FY21 Budget Assumptions: Personnel

- **Championship Workforce**
 - **No new personnel**
 - **Phased implementation of merit increases, salary structure adjustments and Public Safety Compensation Study**
 - **No increase in benefits costs to City or Employees**
 - **Increase reserve for claims to 20% of anticipated claims**
 - **TMRS savings to City due to increasing performance of plan**



Historical Merit Pool



FY21 Infrastructure Rehabilitation Funding

- Rehabilitation Funding – Past Practice
- In the past 10% of Sales Taxes were allocated for PAYG Funding for Rehabilitation Projects in the CIP
 - Funds were transferred out to General CIP for Rehab projects
 - With a change in strategy, starting in FY18 Funding for Rehab remained in the General Fund for these projects
 - With reduced FY21 Budget for Sales Tax, funding might not be available for Rehab based on past practice



FY21 Infrastructure Rehabilitation Funding

Type	FY21 Base Funding	Reduction	Total FY21 Funding
Streets & Drainage	\$2,147,311	\$- 232,296	\$1,915,015
Right of Way	175,000	-100,000	75,000
Traffic	193,000	-	193,000
Parks	188,963	-28,344	160,619
Facilities	292,282	-43,842	248,440
Total Rehabilitation	\$2,996,556	\$ -404,483	\$2,592,073



FY21 Infrastructure Rehab – Project Prioritization

Public Works	FY21 Funding
Localized Drainage Improvements	\$202,500
Sidewalk & Trail Rehabilitation	625,174
Pavement Rehabilitation	818,636
Storm Sewer Rehabilitation	78,704
Bridge Rehabilitation	150,000
Flood Gauges	40,000
Right-of-Way Planting and Irrigation Rehabilitation	75,000
Traffic Evaluation and Safety Improvements	143,000
Sign Maintenance	50,000
Public Works Total	\$ 2,183,014



FY21 Infrastructure Rehab – Project Prioritization

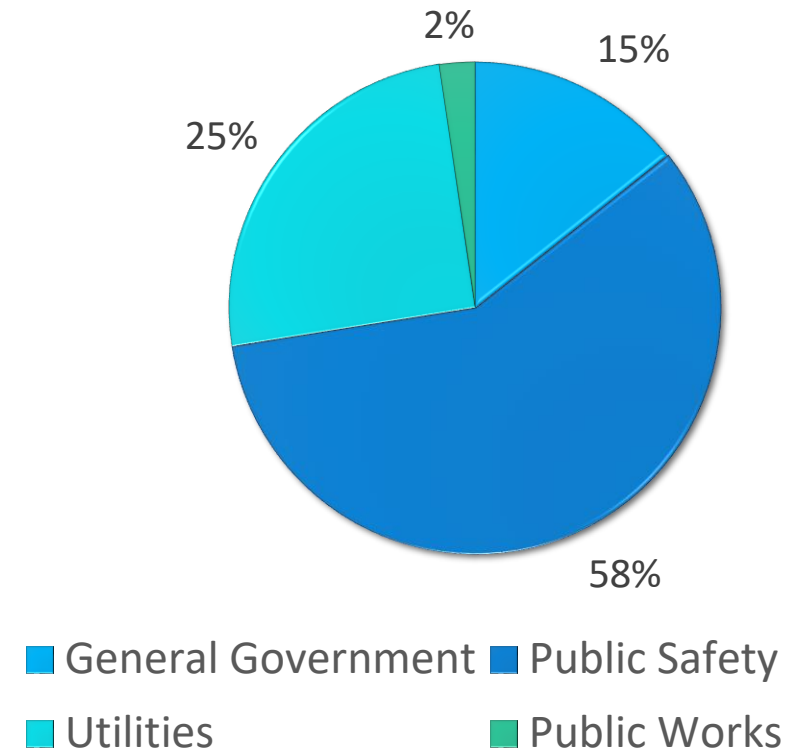
Parks & Facilities Maintenance	FY21 Funding
Parks Infrastructure Rehabilitation - - Sports Field Replacement Lighting	160,619
Facility Improvements <ul style="list-style-type: none">- Emergency & Health/Safety Issues- Needs from Facility Condition Assessment- Staff Identified Priorities	248,440
TOTAL FUNDING	\$2,592,073



FY21 - Fleet Replacement Strategy

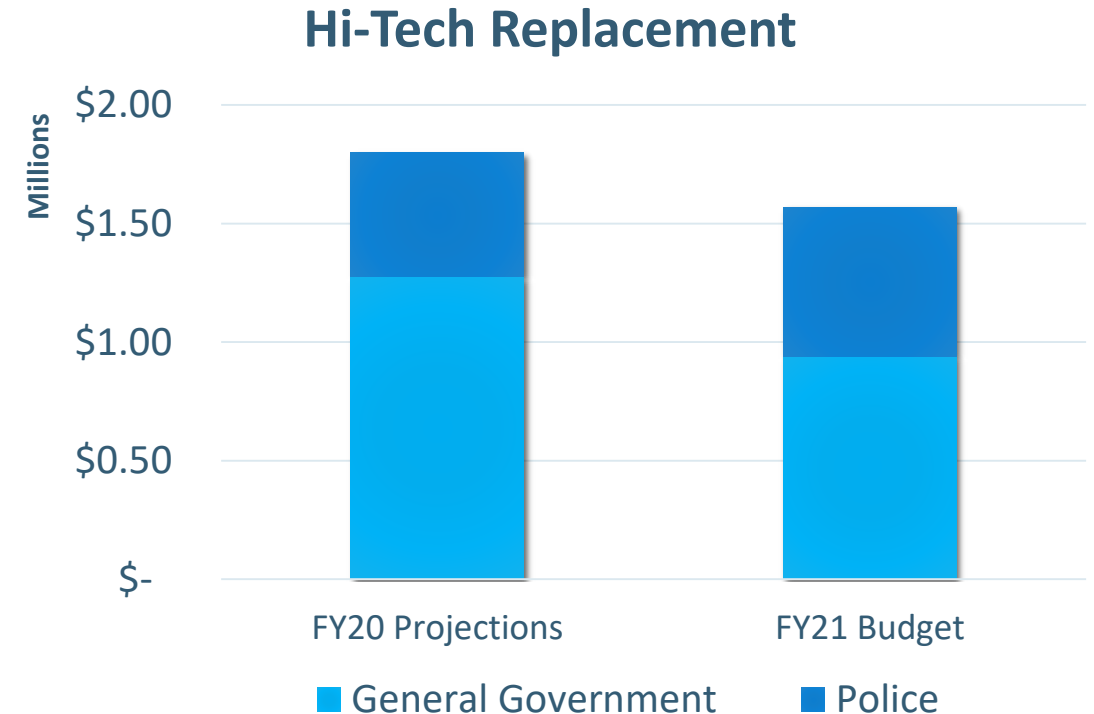
- Reduced Transfer to the Fleet Replacement Fund by 75%
- Inter Fund loan of \$1.5 million to the General Fund
- Reduced replacement list from 46 Vehicles
 - 20 Vehicles identified in revised list
 - Emphasis on Public Safety Vehicles

FY21 Fleet Replacement



FY21 - Hi-Tech Replacement Strategy

- Reduced transfer to the Hi-Tech Replacement Fund by 50%
- Revised replacement list was implemented based on technology needs
- Public Safety Items were funded in full
- General Government reduced
 - Computers
 - Communication Equipment



FY21 – Expenditure Strategies

- Expenditure adjustments targeted to allow departments to maintain existing service levels as much as possible
 - Base Budget increases offset by reductions to operating budgets
 - Personnel increases include merit pool, salary structure and Public Safety Comp Study implementation
 - Reduced Infrastructure Rehabilitation funding
- Majority of decreases in non-departmental expenditures to facilitate budget implementation:
 - Salary Savings (potential elimination of vacant positions if necessary)
 - Reduced transfers to replacement funds



FY21 Budget – Revenue Strategy

FY21 Revenue Strategies

- **Property Tax Revenues**
 - **5% Increase in O&M revenue – shift within existing tax rate**
 - **Maximizing revaluation for M&O in accordance with FMPS**
 - **Does not reflect increase to average residential tax bill**
- **CARES Act Funding for Substantially Dedicated Payroll Expenditures**
 - **Significantly Offset by Emergency Reserve**
- **Inter-fund Loan from Fleet Replacement Fund**



General Fund - User Fees Study

- **Objective: Increase Revenues from User Fees & Charges for Services**
- **User Fee Study is wrapping up Phase I**
- **Adjust fees by at least CPI of 1.5% = \$76,000**
- **Potential for larger increases where User Fee Study indicates**
- **New fees recommended in phase II of study**



FY21 Revenues- Strategy Impacts

FY21 Budget	
Base Revenues	\$88.941
O&M Property Tax at 5%	0.585
Fee Adjustments at CPI	0.076
CARES Act	6.523
Inter Fund Transfer	1.500
Subtotal of Strategies	8.684
Revised Revenues for FY21	\$ 97.625



FY21 - General Fund Summary

\$M	FY21 Budget
Revenues	\$ 97.625
Expenditures	98.870
Ending Fund Balance	23.762
Fund Balance Requirement	21.513
% of Operating Expenditures	28%



Five Year Forecast

GENERAL FUND

General Fund Forecast

- Assumes a return to more normal sales tax revenues by FY22, then follows FMPS guidelines in out years
- Assumes property tax growth at 5% in FY22 and 3.5% in FY23-25
- Maintains service levels as much as feasible
- Return to normal funding levels for:
 - Infrastructure Rehab over 2 years
 - Replacement Fund contributions over 3 years
- Assumed 2.5% personnel growth in FY22, 3% in FY23-25
- 1% growth in O&M costs annually
- Overall goal is to maintain fund balance over policy & structurally balanced forecast

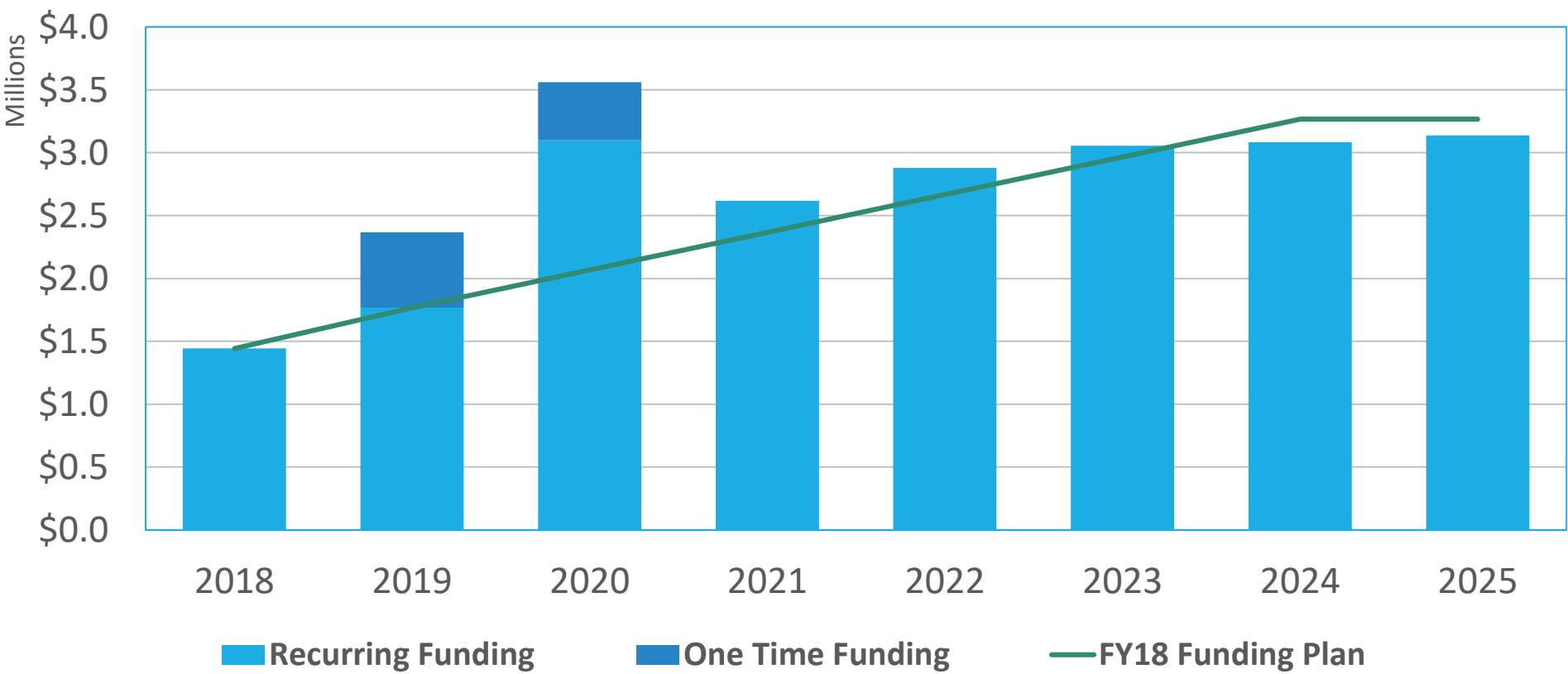


Sales Tax Five Year Forecast

Millions (\$)	FY20P	FY21	FY22	FY23	FY24	FY25
Recurring Revenue	\$ 34.13	\$ 33.27	\$ 37.84	\$ 38.97	\$ 40.14	\$ 41.35
One-Time Revenue	2.19	-	-	-	-	-
Total	\$ 36.32	\$ 33.27	\$ 37.84	\$ 38.97	\$ 40.14	\$ 41.35



Infrastructure Rehabilitation Funding Plan



General Fund Five Year Forecast Summary

Millions (\$)	FY21	FY22	FY23	FY24	FY25
Revenues	\$ 97.63	\$ 97.70	\$ 100.77	\$ 104.00	\$ 107.30
Expenditures	98.87	98.24	101.05	103.93	106.42
Net Income	\$ - 1.24	\$ - 0.54	\$ - 0.28	\$ 0.07	\$ 0.88
Ending Fund Balance % of operating budget	28%	26%	26%	25%	25%
Policy Requirement	25%	25%	25%	25%	25%



FY21 Budget: Key Dates

Date	Action
Aug 18	Public Hearing on PID Assessment
Sept 1	Public Hearing on Proposed Budget 1st Reading of Fee Ordinance & PID Assessment
Sept 8	Public Hearing on Proposed Tax Rate
Sept 15	Approve FY21 Budget, Five Year CIP and Compensation Plans Adopt 2020 Tax Rate 2 nd Reading of Fee Ordinance & PID Assessment



City Council Budget Workshop Schedule

FY21 Proposed Budget & CIP

Date	Topic
Aug 13	Capital Projects and Debt Service Funds
Aug 20	Enterprise Funds Water Utility System, Airport, Solid Waste
Aug 27	Compensation & Benefits, Other Funds- including Economic Development & Tourism



Property Taxes

Property Tax

- Importance of Property Tax
 - Property Tax is one of the main revenue sources for the General & Debt Service Funds
 - One of the few revenue streams the City has control over
 - Funding Supports:
 - General Fund: Public Safety, Public Works, Parks, etc.
 - General CIP:
 - Drainage Projects
 - Major Street Reconstruction
 - Public Safety Equipment and Improvements
 - Facilities

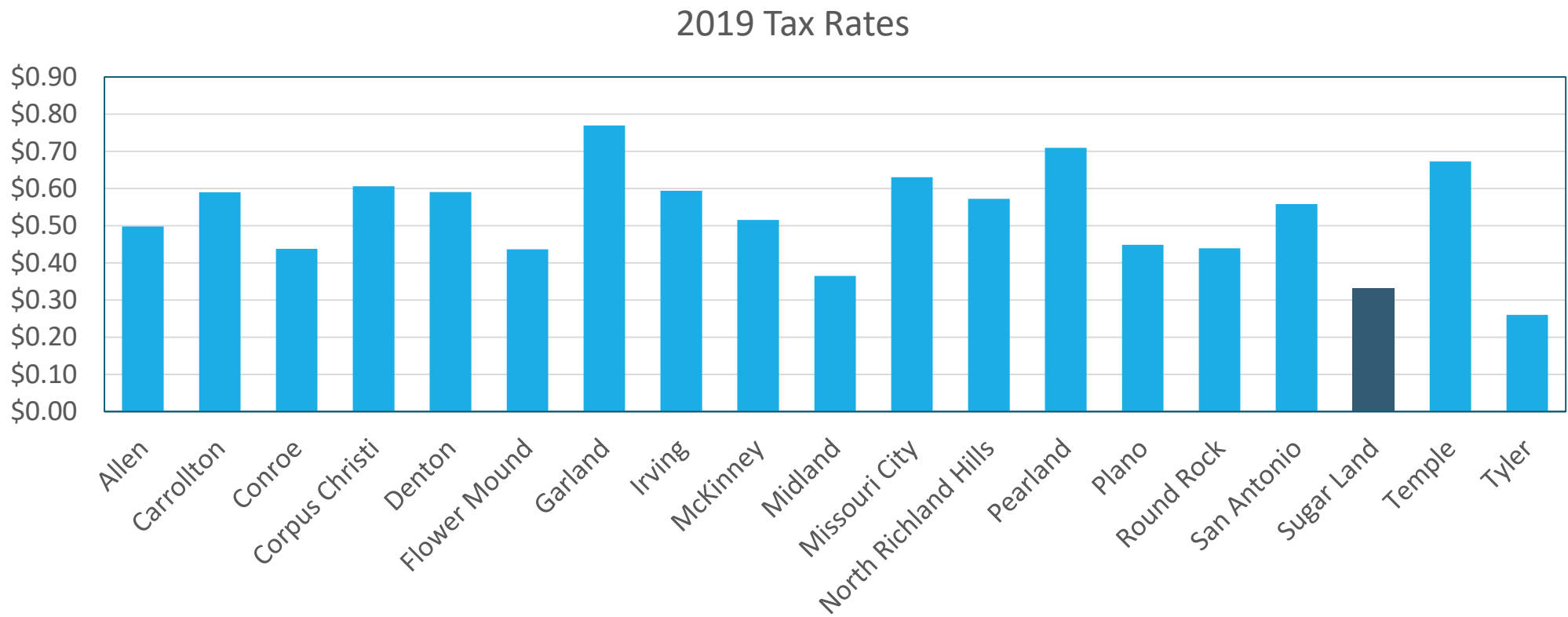


FMPS Direction on Property Taxes- after SB2

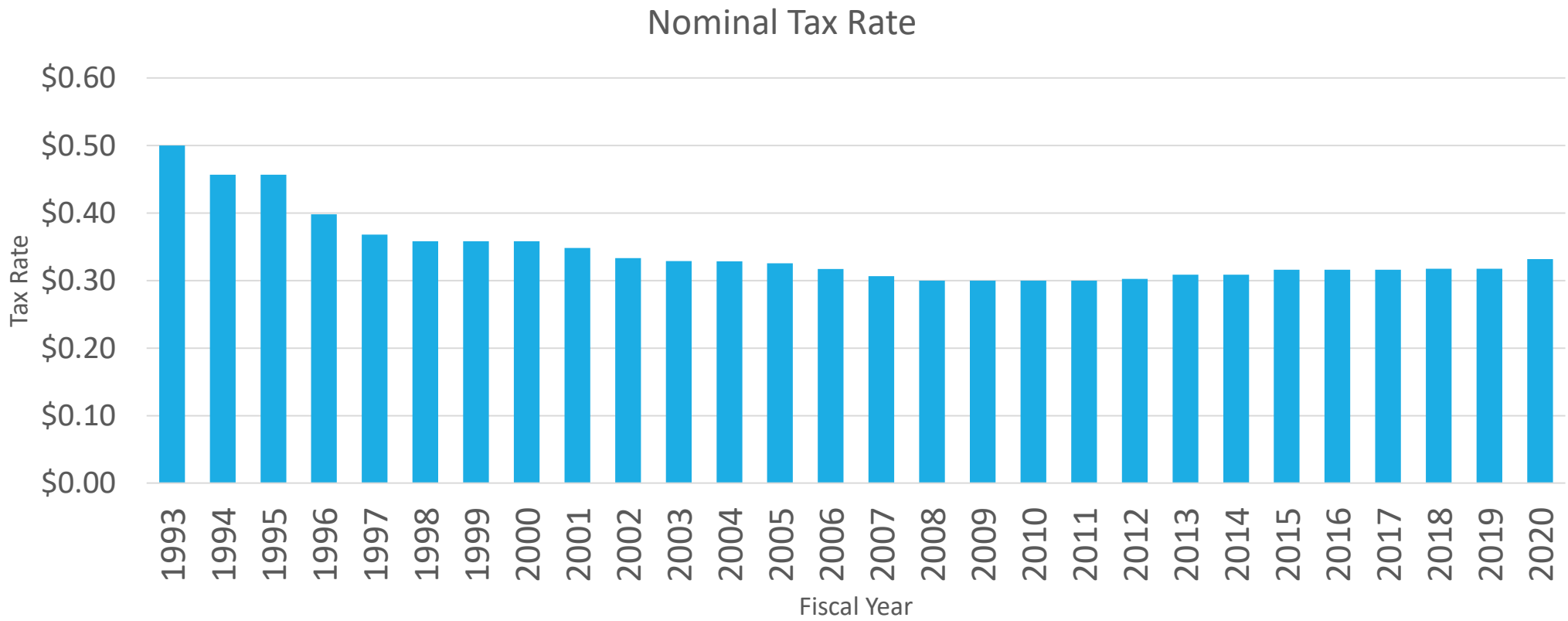
- As economic conditions permit and in accordance with the voter-approval tax rate, the City Manager will recommend a tax rate that is equal to a 3.5% adjustment to the tax bill to maintain existing service levels, recognizing that individual tax bills will vary based on a number of factors, including revaluation, residential vs commercial revaluation and exemptions.
- Adoption of the annual budget and tax rate will take into account growth in the certified tax roll, adjustments to the nominal tax rate and the homestead exemption- with a long term objective of stability in the tax rate and predictability of tax bills.
- As stated in the GO bond section of the FMPS, in the tax year after a GO bond election, the debt service tax rate will be adjusted based on the projected impact of the bonds- before any projects from the GO bond election are funded in the CIP.



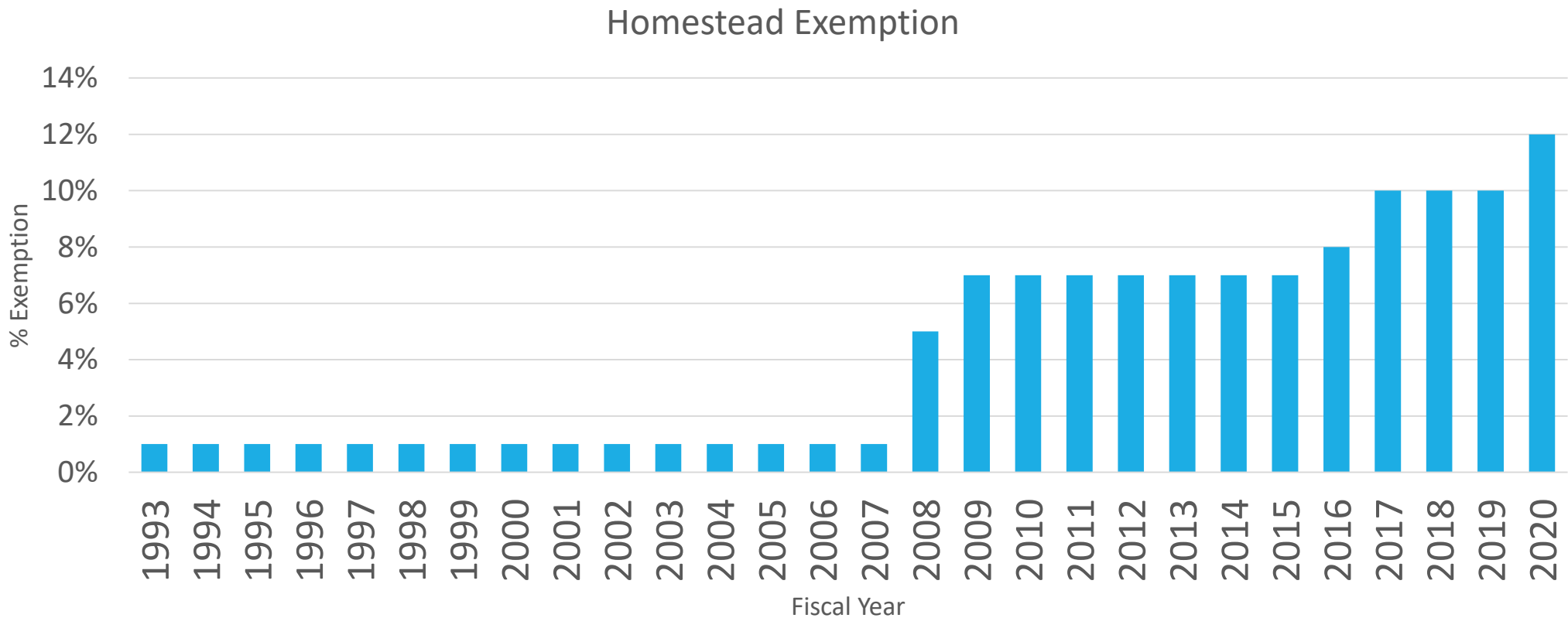
Demonstrated Commitment



Demonstrated Commitment- Low Tax Rate

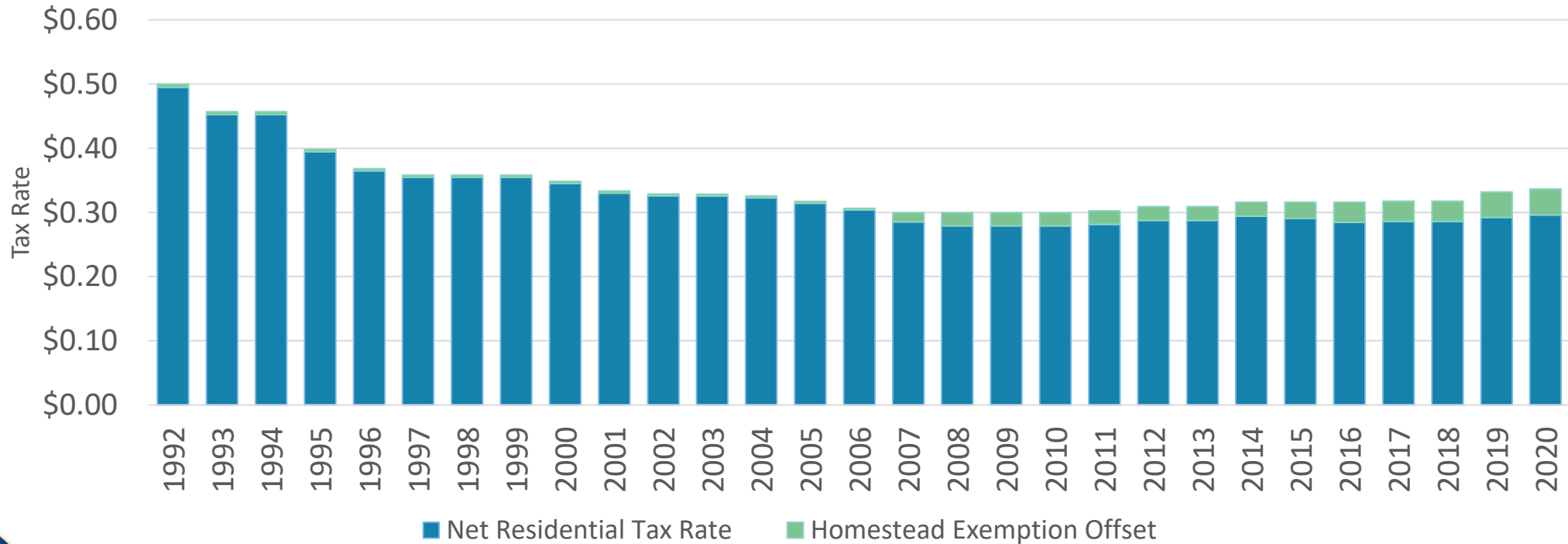


Demonstrated Commitment – Homestead Exemption



Impact of Homestead Exemption on Residential Taxes

Effective Residential Tax Rate- Net of Homestead Exemption
(by Tax Year)



Changes Due to Senate Bill 2

- Senate Bill 2 passed by the 86th Legislature in 2019
- Impacts the terminology, calculations, deadlines and processes to be followed in setting local property tax rates
- Beginning with 2020 tax year:
- Effective Tax Rate is now No New Revenue Tax Rate
- Rollback Tax Rate is now Voter Approval Tax Rate
 - Rollback Rate allowed for 8% increase in M&O taxes with a petition process for election



Changes Due to Senate Bill 2

- Voter Approval Rate allows for 3.5% increase in M&O tax revenue over No New Revenue Tax Rate
- Requires mandatory election in November if exceeded, meaning tax rate has to be approved in August (71 days before election)
 - Exception in the case of disaster declaration:
 - Allows Voter Approval Rate of 8% increase in M&O tax revenue with no election required (*Consistent with previous limits*)
 - City Council enacted this provision for 2020 calculations



Certified Tax Roll

- Certified totals received on **July 27th**
- Received 2 tax rolls:

Description	Amount
ARB Approved	\$ 16,290,374,231
ARB Review	325,999,271
Total @ 100%	\$ 16,616,373,262
Less: TIRZ	- 490,218,077
Net AV to City @ 100%	\$ 16,126,155,186

- Using Chief Appraiser estimate of ARB review property value for budgeting and tax rate calculations per Chief Appraiser (approx. 91%)



2020 Certified Tax Roll vs 2019

\$ Millions	2019	2020*	\$ change	% change
Residential	\$ 12,948	\$ 13,108	\$ 160	1.2%
Commercial	5,169	5,489	320	6.2%
Ag/Auto	147	133	-13	-9.1%
Exemptions	-2,176	-2,144	32	-1.5%
Taxable Value	16,087	16,587	500	3.1%
Less: TIRZ	-431	-489	-58	-13.5%
Net to City	\$ 15,656	\$ 16,098	442	2.8%

* Estimated ARB Review Value

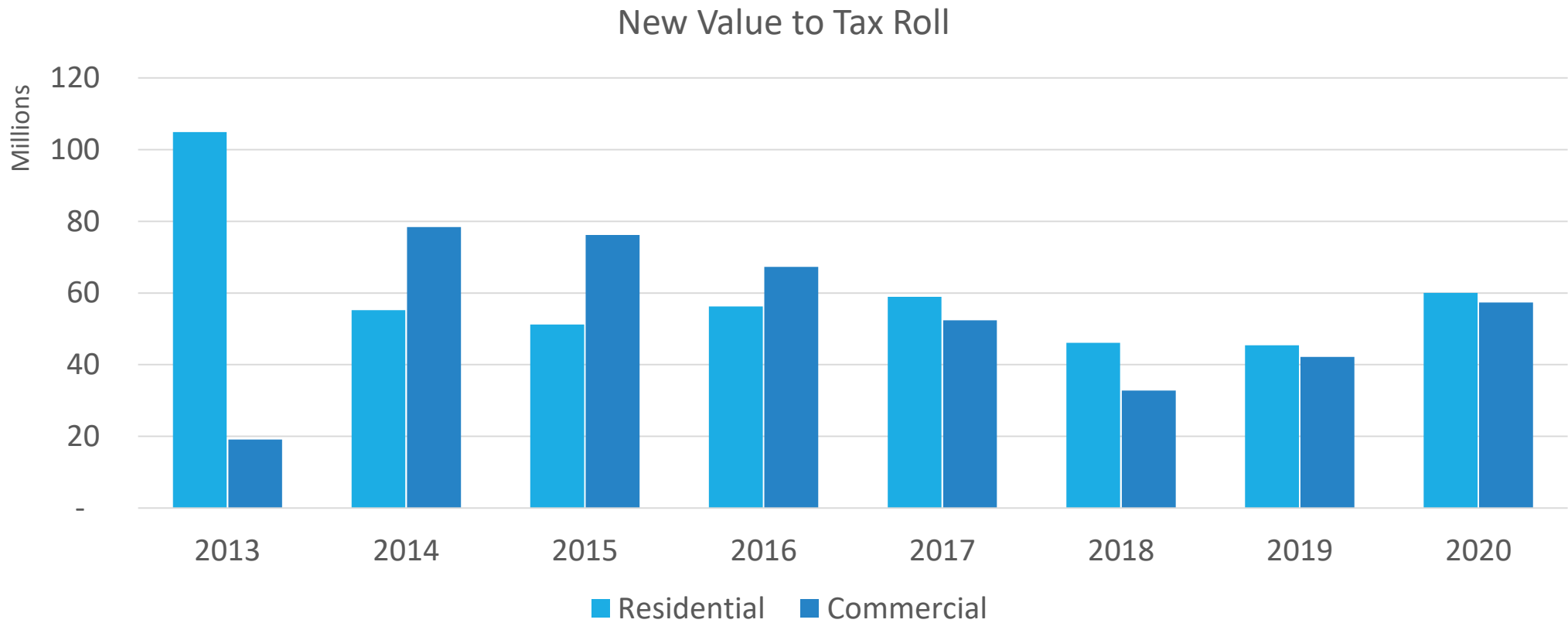


Changes from Prior Year Values

\$M	Residential	Commercial	Ag/Auto	Total
New Value to Tax Roll	\$ 60.1	\$ 57.4		\$ 117.4
Revaluation	99.72	263.0	\$ -13.3	349.4
Change in Exemptions	21.6	0.9	11.0	33.5
Change within TIRZ	- 16.8	- 41.2		-58.0
Total	\$ 164.6	\$ 280.0	\$ - 2.3	\$ 442.3



Historical New Value

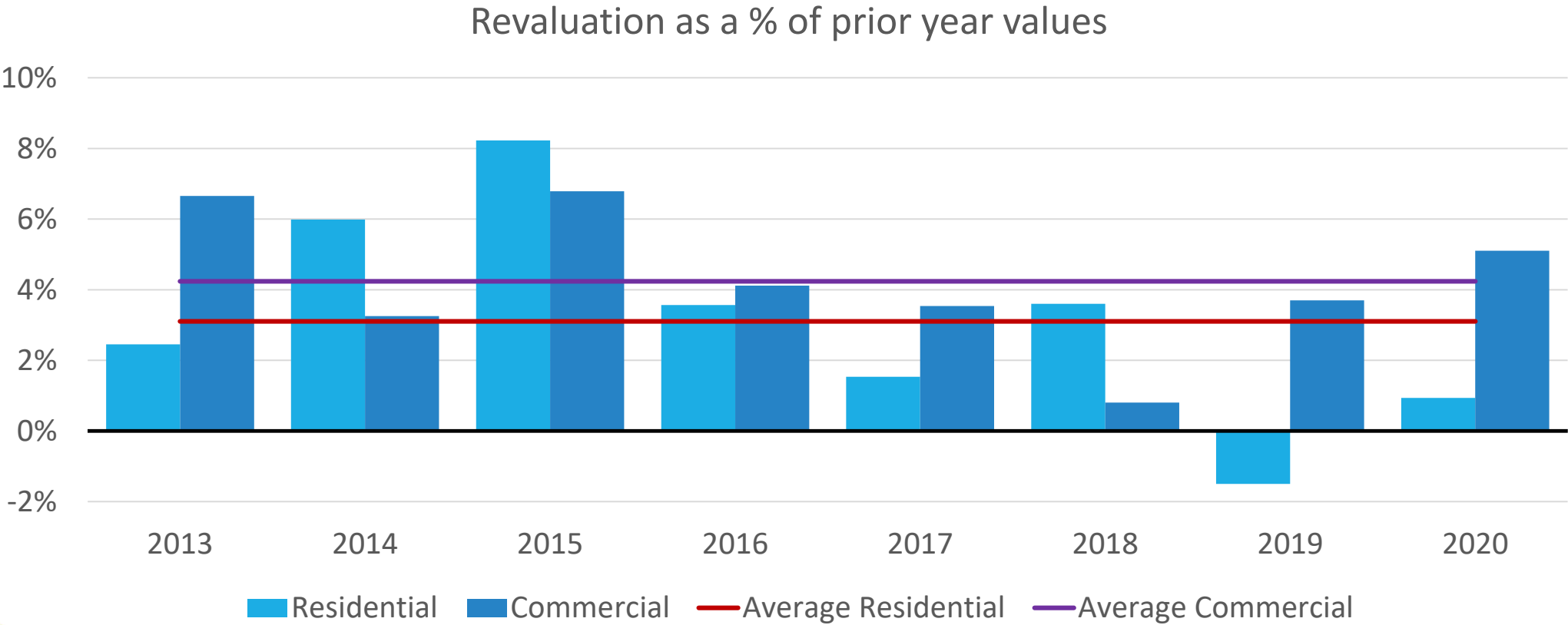


Tax Roll Breakdown: Residential vs Commercial

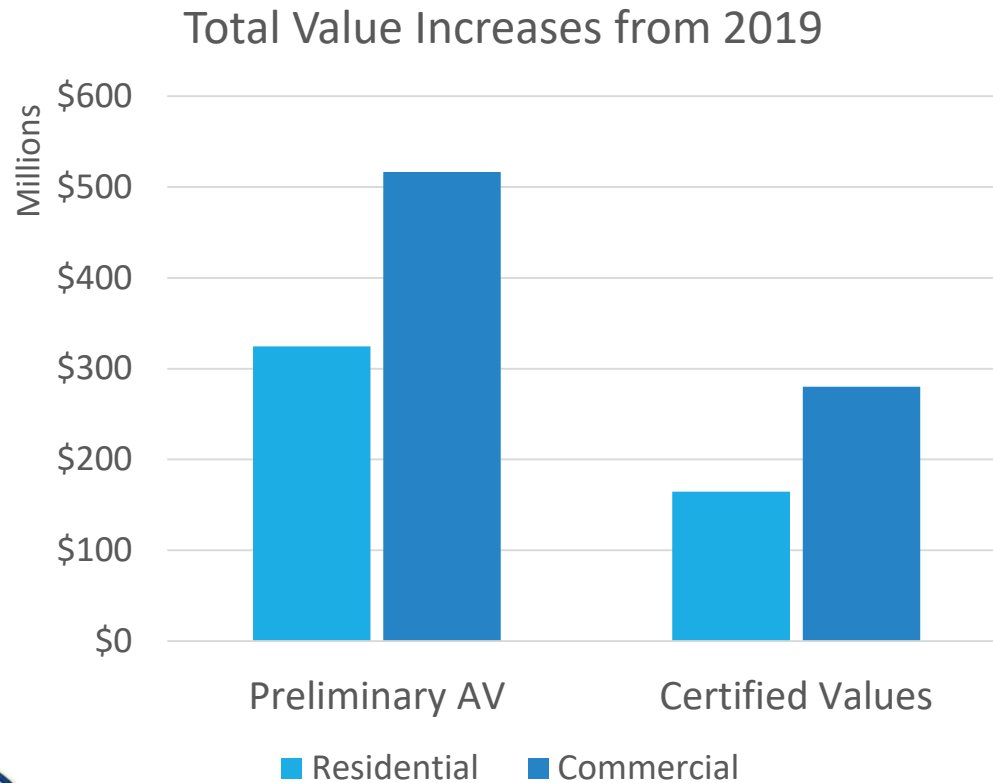
	2019 Certified Tax Roll	2020 Certified Tax Roll	Goal Measure Target	Goal Measure Target Met
Residential	68.4%	67.4%	70%	★
Commercial/Auto	31.7%	32.6%	30%	★



Historical Revaluation



2020 Preliminary vs Certified Tax Roll



2020 Values: Significant change in Commercial Values vs Preliminary Revaluation Growth

	Prelim Values	Certified Values
Residential	2.24%	0.94%
Commercial	8.93%	5.10%
Total	4.68%	2.38%



Current & Proposed Tax Rate vs No New Revenue and Voter Approval Tax Rate

	Calculated at 8%	Calculated at 3.5%
Prior Year (2019) Tax Rate	\$ 0.33200	\$ 0.33200
Proposed (2020) Tax Rate	0.33650	0.33650
No New Revenue Tax Rate	0.32407	0.32407
Proposed Rate % over No New Revenue Rate	3.84%	3.84%
Voter Approval Tax Rate (adjusted by sales tax for property tax reduction)	\$ 0.35080	\$ 0.33831



Tax Rate Required to Fund FY21 Budget and CIP

	2019 Tax Rate	Shift from Debt to M&O	Increase for GO Bond Projects*	2020 Tax Rate
M&O	\$ 0.19705	\$ 0.006	\$ 0.00	\$ 0.20305
Debt Service	0.13495	-0.006	0.0045	0.13345
Total	\$ 0.33200	0.00	0.0045	\$ 0.33650

***Increase for bond projects is less than estimated in the filed budget, based on conservative value estimates**



Impact to Residential Tax Bill

	2019	2020	% Increase
Tax Rate	\$0.33200	\$0.33650	1.36%
Homestead Exemption %	12%	12%	-
Average Home Value	\$ 374,856	\$ 378,923	1.08%
Homestead Exemption	- 44,983	-45,471	1.08%
Taxable Value	\$ 329,873	\$ 333,452	1.08%
City Tax Bill	\$ 1,095	\$ 1,122	2.46%
Increase vs Prior Year		\$ 27	



Next Steps

- Record Vote to Publish Notice of Proposed Tax Rate and Set Public Hearing on the proposed tax rate
 - August 13th
- Hold Public Hearing on Tax Rate
 - September 8th at 5:30 p.m.
- Proposed rate is 3.84% higher than the No New Revenue Tax Rate and lower than the Voter Approval Tax Rate
- Impact to average residential tax bill 2.46% or \$27/year



Notice of Tax Rates

- Published in newspaper by tax office and posted on website
- Also posted on Fort Bend County and CAD websites
- Includes a summary of No New Revenue and Voter Approval Rate calculations, as certified by Tax Assessor/Collector:
 - No New Revenue Tax Rate
 - Voter Approval Tax Rate
 - Unencumbered Fund Balances
 - Current Year Debt Service Obligations
 - Amount of tax levy to be used for Debt Service in 2020



Notice of Public Hearing on Tax Increase

- Gets published in newspaper and on website
- After Record Vote on Tax Rate on August 13th
 - Proposed Tax Rate for 2020
 - No New Revenue Tax Rate
 - Voter Approval Tax Rate
 - Date, time and location of Public Hearing
 - Result of vote to consider tax rate
 - Table comparing taxes on average residence in Sugar Land



Table for Public Hearing Notice

	2019	2020	Change
Total Tax Rate (per \$100 value)	\$0.33200	\$0.33650	<i>Increase of \$0.0045 or 1.36%</i>
Average Homestead Taxable Value	\$329,874	\$ 333,453	<i>Increase of 1.08%</i>
Tax on Average Homestead	\$ 1,095.18	\$ 1,122.07	<i>Increase of \$27 or 2.45%</i>
Total Tax Levy on all Properties	\$ 53,334,214	\$ 54,111,570	<i>Increase of \$777,356 or 1.46%</i>



Budget Public Hearing Notice

- Must include statement in the budget public hearing notice
- Applies to entire tax rate and is compared to the original FY20 budget for property taxes
 - This budget will raise more total property taxes than last year's budget by \$1,901,447 or 3.66%, and of that amount, \$395,179 is tax revenue to be raised from new property added to the tax roll this year.



Next Steps

Activity	Date
Submission of Voter Approval Rate to City	Aug 6
Discuss Proposed Tax Rate for 2020, Record Vote	Aug 13
Publish Proposed Tax Rate & Public Hearing Notice	Aug 26
Public Hearing on Proposed 2020 Tax Rate	Sept 8
Ordinances to Adopt FY21 Budget & 2020 Tax Rate	Sept 15



Clarifying Questions for Staff

Record Receipt of Certifications from Fort Bend County Tax Assessor/Collector

Senate Bill 2 Changes

- Requires Tax Assessor to submit certain certifications and calculations to the governing body
- Includes:
 - Excess debt collections
 - Historical and estimated collection rates
 - Taxable value of new property
 - Total appraised value of all properties
 - Taxable value of all properties
- Values are used to calculate the no new revenue and voter approval tax rates



Recommended Action

- Fort Bend County Tax Assessor/Collector requests that the City record into the minutes of the meeting
- Receipt of the calculations used in preparation of the No New Revenue and Voter Approval tax rate calculations
- Receipt of Certified No New Revenue and Voter Approval Tax Rate Calculations



Clarifying Questions for Staff
